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REAPING THE POTENTIAL BENEFITS OF THE

African Continental Free Trade Area

FOR INCLUSIVE GROWTH

ECONOMIC DEVELOPMENT IN AFRICA Report 2021

UNITED NATIONS

Chapter 3

Shared prosperity through the African Continental Free Trade Area: Realizing export potential and challenges towards greater inclusiveness of trade

A key obstacle to greater intra-African trade is the low complementarity of regional trade, which can be overcome through greater market access under the African Continental Free Trade Area. The present chapter contains an examination of the benefits of the Free Trade Area for merchandise and services trade, the ways in which it can support inclusive growth in Africa, an outline of some of the benefits of the export potential for transformative and inclusive growth, including emerging value chains in the manufacturing sector, and avenues for a commodity-based export diversification strategy for inclusive growth. Reaping the benefits of the Free Trade Area is hindered by several market distortions and trade frictions. Set out below are the ways in which regulatory and structural barriers to bilateral trade are an impediment to inclusive participation in trade, and insufficient and unequal access to productive capacities, as the main challenge to the ability to contribute to inclusive growth in Africa under the Free Trade Area, is also addressed.

INCLUSIVE GROWTH THROUGH SHARED PROSPERITY

INTRA-AFRICAN EXPORT

potential is expected to increase by

$9.2 billion

through **partial tariff liberalization**
by 2025 under the African
Continental Free Trade Area

The discourse on trade and industrial objectives often overlooks the overlap of domestic interests and competition dynamics between member States in specific sectors. The African Continental Free Trade Area has the potential to harmonize national and regional objectives through a coherent and integrated policy framework, including in the context of phase II of implementation of the African Continental Free Trade Area Agreement, on investment and competition policies.

3.1 Regional trade provides greater opportunities for export diversification

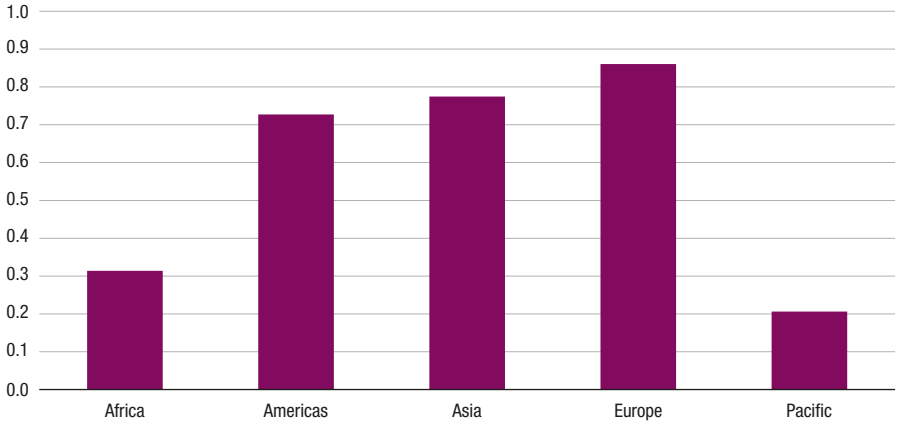
Greater regional integration offers more opportunities to climb the technological ladder than do exports outside the continent, given that intra-African exports are technologically more advanced, as indicated by a larger share of medium- and high-technology manufactures (International Trade Centre and UNCTAD, 2021; Saygili et al., 2018). Moreover, intra-African trade consists of a higher share of processed goods (41 per cent) than exports to the rest of the world (17 per cent), and it is much more diversified in terms of traded products (International Trade Centre and UNCTAD, 2021).

Despite the advantages of greater intraregional trade for export diversification, the level of intraregional complementarity in Africa is below that of the Americas, Asia and Europe (figure 17), which currently limits the potential of the African integration process. Africa's export profile does not correspond as much with its import basket as in other continents, which partly explains why the level of intra-African trade is not higher. Low complementarity of intra-African trade is rooted in a narrow export basket, limited diversification, regulatory and structural barriers to trade and overlapping trade strategies (International Trade Centre, 2019).

Rising demand through GDP and population growth triggers high import demand and guides countries in Africa towards greater economic diversification. A simulation of the potential for additional exports, by combining information on import demand with potential export supply, is set out below. Currently untapped trade opportunities, explained by trade frictions and expected growth, and additional opportunities that could arise through tariff liberalization under the African Continental Free Trade Area are also identified.

Figure 17

Complementarity index of intraregional exports and imports, yearly average, 2015–2019



Source: International Trade Centre and UNCTAD, 2021.
Note: The complementarity index is a measurement of the degree to which the export and import structures of two trade partners overlap. There is a value of 1 if every product accounts for the same share of an exporter's exports and its partner's imports, and a value of 0 if there is no correspondence between the products exported by one and those imported by the other.

3.2 Unlocking new export opportunities in merchandise through the African Continental Free Trade Area

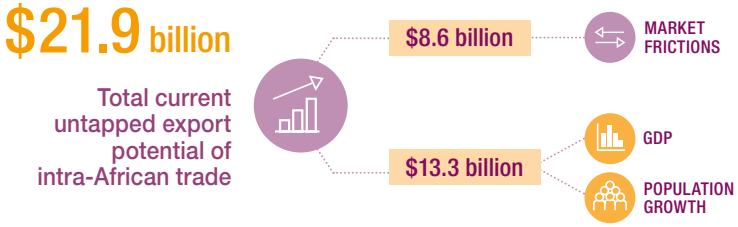
In the present section, opportunities for increasing intra-African merchandise trade are identified. The export potential methodology of the International Trade Centre is used to highlight both existing and new opportunities that can arise with tariff reductions under the African Continental Free Trade Area.

The export potential indicator developed by the International Trade Centre provides an estimate of the potential value of exports for a given exporter-importer-product combination. Comparing export potential to actual exports helps to identify countries and markets with untapped export potential. Export potential is computed below, for current tariff conditions and where tariff reductions are expected under the African Continental Free Trade Area.

3.2.1 Intra-African export potential under current tariff conditions

The baseline scenario, without the implementation of the African Continental Free Trade Area, is as follows. Despite a continuous reduction of tariff rates within RECs over the past decade, the simple average applied intra-African bilateral tariff rate was 5.25 per cent in 2019. Differentiated by product categories, the intra-African applied tariff rate was 4.93 per cent on raw materials, 3.76 per cent on intermediate goods, 8.9 per cent on consumer goods and 3.4 per cent on capital goods. Although the trade weighted average tariff rate yields 2.4 per cent, there is still considerable scope for tariff liberalization between countries in Africa. East Asia and Latin America show a lower trade weighted average of intraregionally applied tariffs, of 1.56 per cent and 1.16 per cent, respectively, whereas intraregional trade in South Asia is on average more restrictive, with a trade weighted average of 7.33 per cent.

Under current tariff conditions, the total untapped potential of intra-African trade is already large



Based on the combination of supply, demand and ease of trade, total intra-African export potential is estimated as indicated in box 7. Comparing export potential to actual trade reveals that the total untapped export potential of intra-African trade is around $21.9 billion, equivalent to 43 per cent of intra-African exports (yearly average for 2015–2019), in the goods covered in the export potential analysis. More than one third of that export potential is explained by frictions, namely, static untapped export potential, which implies that $8.6 billion in trade could be realized by engaging actively in efforts to identify and address current market frictions in African trade today.[18] The remaining $13.3 billion in untapped export potential is driven by GDP and population growth, which are expected to translate into increased supply and demand.

[18] Export potential is computed at the exporter-importer-product level. The static untapped export potential therefore captures frictions that inhibit exports of a specific product to a specific market. Addressing additional frictions not captured by the model that affect intra-African trade more generally would yield additional export potential.

Box 7

International Trade Centre methodology for determining export potential

Under the methodology for determining export potential, developed by the International Trade Centre, the export potential of a country or region, across products and markets, is quantified through an assessment of detailed trade and market access information. It is aimed at identifying potential export values based on supply capacities in an exporting country, demand conditions in the target market and bilateral linkages between the two.

The export potential indicator is computed for products that a country already exports.[a] It uses a weighted average of the five most recent years for which trade data are available. The underlying trade data, sourced from the International Trade Centre trade map, have undergone thorough treatment to ensure that results are not driven by misreported trade flows, measurement errors or incorrect attribution. A reliability assessment identifies and filters out unreliable reporters whose reported trade flows significantly deviate from those of their trade partners. When the exporter and importer are reliable reporters, the geometric average of the direct and mirror data is used for the transaction. When data are missing or a reporter is unreliable, reliable mirror data are used whenever possible. The export potential indicator is a computation of expected values of trade for each exporter-importer-product combination, determined by combining information on the exporter's projected supply capacity for a given product, the importer's projected demand and the ease of trade between the two trading partners.

Supply is captured by the exporter's global market share in the product, and demand by the trading partner's imports of the product. They are augmented by forecasts of GDP and population growth for the following five years, to provide a forward-looking assessment that accounts for the expected evolution of supply and demand. Revenue elasticities of demand are computed separately for developed and developing countries, at the two-digit level of the Harmonized Commodity Description and Coding System of the World Customs Organization. Furthermore, current tariff conditions and future tariff changes, if applicable, are introduced to account for differences in market access conditions. Geographical distance is equally accounted for, using a product-specific distance correction. A revealed measure of ease of trade between the exporter and the importer captures their overall trade relationship. It is a comparison of the actual trade between them with the hypothetical trade that would occur if the exporter had the same share in the importing country as it has in the world market.

Any gap between a country's export potential and its actual exports is interpreted as untapped export potential and therefore an opportunity for future export growth. Such a gap can result from two types of factors, namely, dynamic or growth-based export potential, in terms of future economic growth in the country itself or demand growth in the target market; and static or friction-based export potential, namely, factors that trade advisers may address, together with local companies, such as a lack of information about the rules and regulations of a target market or difficulties in complying with them or meeting the preferences, such as in terms of quality, of its consumers.[b]

Source: UNCTAD.

[a] The list of products considered excludes products covered by international conventions on waste, pollutants, arms and ammunitions, tobacco, extractive industries, products that cannot be produced, such as antiques, and products that are irrelevant for market intelligence, such as commodities not elsewhere specified. A second indicator, the product diversification indicator, can be used to identify opportunities for diversification into new export products. The product diversification indicator is not used in the analysis set out in the present report.

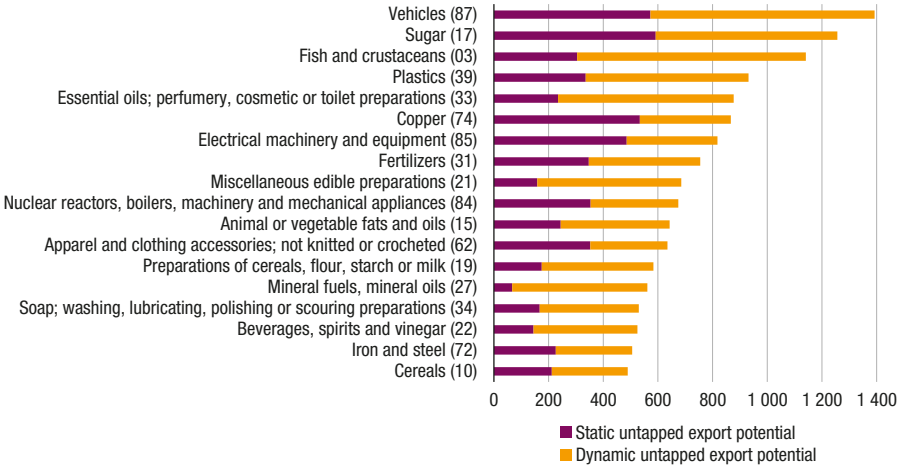
[b] For more information on the export potential methodology, see Decreux and Spies, 2016.

Figure 18 shows the static (friction-based) and dynamic (growth-based) export potential under current tariff conditions for the 18 sectors benefiting the most under those conditions, aggregated at the two-digit level of the Harmonized System. The largest untapped potential is expected in the vehicles, at $1.4 billion, and sugar, at $1.3 billion, sectors. There is a large untapped potential in food products, in particular in the following sectors: sugar; fish and crustaceans; miscellaneous edible preparations; preparations of cereals, flour, starch or milk; and beverages, spirits and vinegar. Export potential in food manufactures is more equally distributed across countries in Africa, as many countries have at least some basic supply capacities. In contrast, export potential in the vehicles sector is strongly concentrated among a few exporters; it is also the sector with the second largest dynamic export potential, after fish and crustaceans, which is largely driven by expected GDP and population growth over the next five years, triggering rising continental import demand. The untapped export potential varies greatly across countries in Africa. Relative to their realized export potential, the largest untapped potential is projected for Cabo Verde (86 per cent), Equatorial Guinea (86 per cent) and the Gambia (84 per cent). In absolute terms, South Africa ($7.9 billion) has the largest untapped export potential, followed by Egypt, Morocco and Côte d'Ivoire.

Figure 18

Untapped static and dynamic export potential, by sector

(Millions of dollars)



Source: International Trade Centre and UNCTAD, 2021.
Note: Numbers in parentheses refer to the sector classification code under the Harmonized System.

3.2.2 Anticipated tariff scenario under the African Continental Free Trade Area

Phase I of the implementation of the African Continental Free Trade Area Agreement is aimed at fully eliminating tariffs, allowing for different liberalization schedules for the least developed countries and countries not in that category. Beginning in 2021, tariffs will be eliminated for 90 per cent of product categories, over a period of five years, and over a period of 10 years for the least developed countries. If customs unions, such as the Central African Economic and Monetary Community, the East African Community, the Economic Community of West African States and the Southern African Customs Union, consist of members that are least developed countries and members that are not, the customs union can decide to which group tariff offers will be submitted. The Central African Economic and Monetary Community, the East African Community and the Economic Community of West African States have submitted their group tariff concessions for a phase-down period of 10 years, following the modalities granted to the least developed countries. Tariff liberalization under the African Continental Free Trade Area includes two exceptions: sensitive goods (7 per cent of tariff lines), to be liberalized

over a period of 10 years, and over 13 years for the least developed countries, and excluded goods (3 per cent of tariff lines), which are those that can be excluded from liberalization. At the time of writing, exact tariff reductions under the Free Trade Area are not yet known, but the following scenario is anticipated: by 2025, full tariff elimination for countries liberalizing according to the schedule for countries other than least developed countries and partial tariff liberalization, and elimination by 50 per cent gradually within five years for countries liberalizing according to the least developed country schedule, across all product groups. For comparative purposes, a scenario is computed in which all countries in Africa, irrespective of their development status, eliminate all tariffs within five years. The export potential projections are limited to five years to achieve a more realistic approach with regard to GDP and demand growth. The obtained results for the continent are expected to be driven by trade creation between RECs, rather than within RECs, given the already low applied tariff rates within RECs.

3.2.3 Additional export potential under the African Continental Free Trade Area

Overall, partial tariff liberalization by 2025 is expected to increase the intra-African export potential by $9.2 billion. As a comparison, export potential could increase by $20 billion in the same time period, if all countries liberalized fully within five years. The surprisingly large difference between the two scenarios is driven by the following two factors: export potential increases more than proportionally with tariff reduction (in the case at hand, the effect of a 50 per cent reduction in tariffs is less than half of the effect of a full reduction); and some large economies, such as Kenya and Nigeria, liberalize markets under the schedule for the least developed countries, i.e. 50 per cent liberalization, but drive the additional export potential under the assumption of full liberalization without the special treatment for least developed countries (International Trade Centre and UNCTAD, 2021).

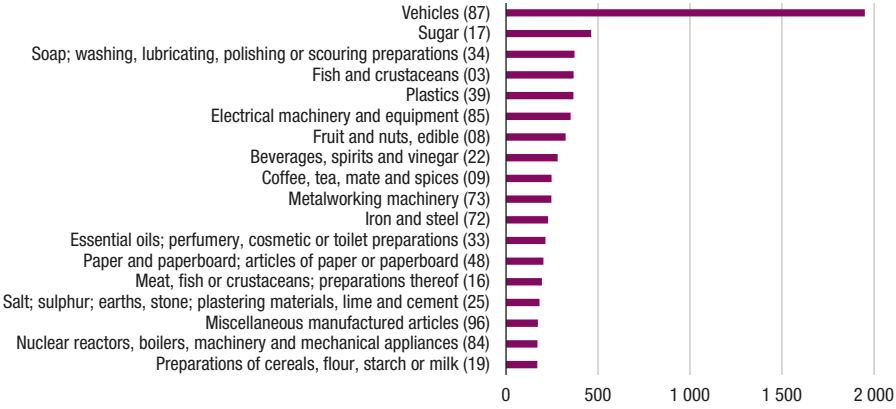
Figure 19 includes the sectors with the highest intra-African additional export potential that could arise under the partial tariff liberalization scenario of the African Continental Free Trade Area over the next five years. The sector expected to realize the largest export potential following the tariff liberalization is the vehicles industry. Overall, tariff liberalization promises an additional export potential of 18 per cent by 2025. The sectors gaining the most from the tariff liberalization are the ones that also promise to have a growing export potential based on supply and demand developments over the next five years. The exporters that would benefit the most from partial and full tariff liberalization, and that are expected to increase their export potential in Africa by more

than 100 per cent, face on average the highest tariff rates; they are Cabo Verde, the Gambia, Sao Tome and Principe, Somalia and South Sudan (International Trade Centre and UNCTAD, 2021).

Figure 19

Additional export potential through anticipated partial tariff liberalization under the African Continental Free Trade Area, by sector

(Millions of dollars)



Source: International Trade Centre and UNCTAD, 2021.
Note: Numbers in parentheses refer to the sector classification code under the Harmonized System.

The expected additional export potential under the African Continental Free Trade Area in high value added sectors, such as vehicles and electrical machinery and equipment, points towards benefits for transformative growth. However, much of that potential is currently concentrated in countries other than the least developed countries and presents limited benefits in terms of inclusiveness (International Trade Centre and UNCTAD, 2021).

The findings from three case studies concerning sectors that are of particular interest with respect to COVID-19 pandemic recovery plans and inclusive and transformative development, are set out below. The sectors are as follows: potential for regional value chains to tackle medical supply shortages; food manufacturing, motivated by the observations that the pandemic shone a light on the lack of self-reliance on food products in the region and that almost all countries in Africa have some export potential in the industry; and assessing the potential of the automotive industry to yield inclusive benefits under the African Continental Free Trade Area through regional supply chains,

given that the sector has the largest untapped export potential and the largest export potential growth under the Free Trade Area.

3.2.4 Tackling medical supply shortages through regional value chains

At the beginning of the COVID-19 pandemic, it quickly became apparent that countries in Africa did not have the capacity to supply sufficient health-care products and that they depended greatly on imports, mainly from China, India and the European Union. Over the course of the pandemic, the export of medical supplies has been restricted, uncovering the dependency and vulnerability of Africa.

Although investment in the health sector has increased, it remains small in scale. According to UNCTAD (2020a), about two thirds of announced greenfield projects were in the manufacturing of pharmaceuticals and medical devices. The International Trade Centre (2020) has found that there is scope for building productive capacities in Africa based on available raw materials and exports of certain inputs in the production of masks, gloves and disinfectants. The leading medical supply imports to Africa include disinfectants and sterilizers, medical consumables, test kits and medical and surgical equipment. However, the high average tariff rate of 10.3 per cent applied by countries in Africa on such products restricts access for producers and consumers to affordable medical products (International Trade Centre, 2020).[19] In addition to tariffs, many businesses face difficulties in importing intermediate inputs, due to non-tariff measures. Two of the three main inputs in the production of disinfectants, ethanol and plastic bottles, are already supplied in reasonable quantities on the continent, with the main suppliers being Egypt and South Africa. The other input, glycerol, is not yet produced in a sufficient capacity, and producers of disinfectants rely on imports from outside Africa (International Trade Centre, 2020). Trade policy needs to ensure that producers have access to adequate and affordable inputs, from both inside and outside Africa.

As a response to the pandemic, several countries have started to build capacities in medical supplies. Multinational enterprises in the health-care industry have increased productive capacities and have been supported by Governments in producing critical equipment (UNCTAD, 2020b). In order to successfully build productive capacities in the future, policymakers must identify which inputs are necessary for their industries and how trade policies can facilitate access to local, regional or global sourcing.

[19] For comparison, the applied tariff rate on the import of medical products is 7.9 per cent in non-African developing countries and 2.9 per cent in developed countries.

The pharmaceutical industry is characterized by centralized research and development, causing networks of market-seeking, with a concentration in a few hub locations. The pandemic may trigger a shift towards the greater geographical diversification of supply chains, with increasing attention being paid to replication production processes, such as three-dimensional printing. Although such a growth trajectory has less potential to drive inclusive growth overall, due to limited application in agriculture-based industries and a reduced use of labour, it may be a realistic option for the specialized, geographically distributed pharmaceuticals and medical supply industries (UNCTAD, 2020b).

3.2.5 Challenges for the food processing sector in supporting inclusive growth

Higher production and productivity in the food manufacturing sector speaks directly to the targets under Agenda 2063, including increasing the share of labour-intensive manufacturing output and reducing food import dependency. The COVID-19 crisis has exposed the vulnerability of countries in Africa to the import of food items, in particular given that Africa imports about 85 per cent of its food from outside the continent (Akiwumi, 2020).[20]

Among the leading sectors with untapped export potential, preparations of cereals, flour, starch or milk and miscellaneous edible preparations hold the greatest promise in terms of sustainable and inclusive growth. Both sectors have a high value share of processed goods and a high level of participation of women. Although both sectors are not among the 10 sectors with the highest expected gains under the African Continental Free Trade Area, due to currently relatively low intra-African applied tariffs (4.8 per cent on miscellaneous edible preparations and 4.38 on preparations of cereals, flour, starch or milk), compared with, for example, sugar (8.9 per cent), intra-African export potential in preparations of cereals, flour, starch or milk is still expected to increase by $170 million, and in miscellaneous edible preparations, by $152 million, under partial liberalization (International Trade Centre and UNCTAD, 2021).

Untapped and additional export potential under the African Continental Free Trade Area in manufactures of food products is spread among countries, with nearly all economies in Africa having some potential in realizing additional intracontinental exports, as illustrated in figure 20. Due to the strong value chain linkages of agroprocessed goods

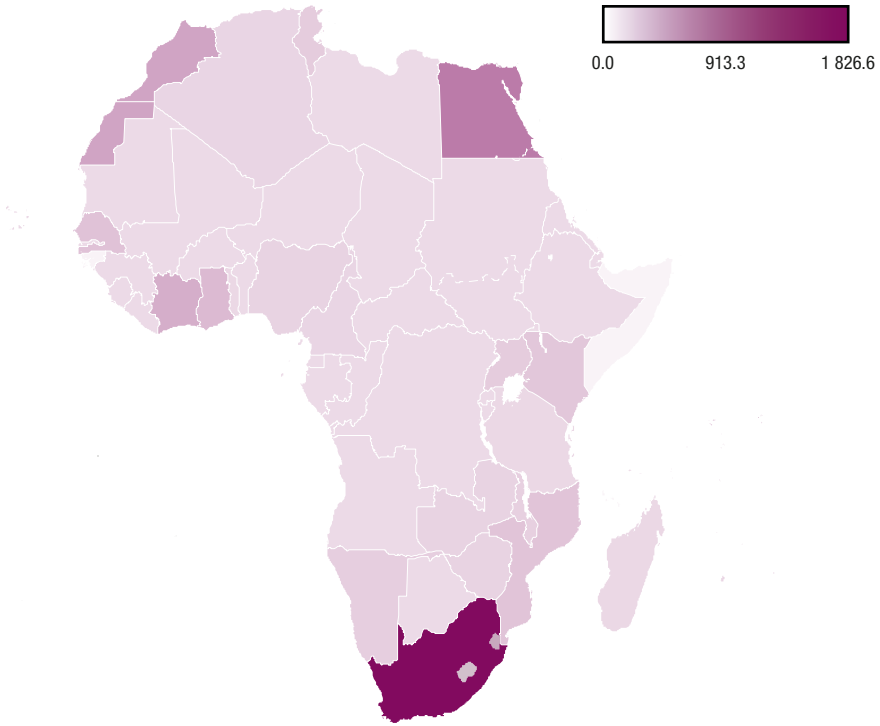
[20] Given the risk of food insecurity, national policy responses to ensure domestic availability included a reduction of value added tax, such as in Kenya, from 16 to 14 per cent, and a ban on food exports, such as in the Sudan, where sorghum exports were banned in April 2015 (Akiwumi, 2020).

upstream in the value chain, including agriculture, retail services and business services, and downstream in the value chain, including hotel and restaurant services and retail services, the sector is an important driver of inclusive and transformative growth on the continent. Moreover, food production and trade are characterized by a greater share of participation of women. On average among countries in Africa, the manufacturing of food products and beverages sector employs more women than men, based on employment statistics from the database of the International Labour Organization.

Figure 20

Untapped and additional export potential of manufactures of food products under the African Continental Free Trade Area

(Millions of dollars)



Source: UNCTAD calculations, based on International Trade Centre and UNCTAD, 2021.
Note: Manufactures of food products refers to the sum of the classification codes 16 to 22 under the Harmonized System.

Agroprocessing is also beneficial for socially, environmentally and economically sustainable growth, because of the reduction in post-harvest losses and food wastage, the income generation for farmers through buyer-seller linkages to processing enterprises and the large proportion of women employed in agriculture and the manufacturing of food and beverages (Owoo, 2018).

Despite the currently untapped and dynamic growth potential of fresh and processed food items, the limited productive capacities are unlikely to be sufficient to serve the high demand for food imports.

Similar to the medical supply industry, food processing is characterized by strong regionalization and geographically distributed production networks (UNCTAD, 2020b). Regional integration plays a core role in the evolution of shorter supply chains, and the regionalization of production has a greater impact on development and sustainability (UNCTAD, 2020b). In the East African Community, which has an average tariff rate of zero across all products, regional integration efforts have been insufficient to reduce dependency on food imports from outside the continent or to stabilize and converge prices. Price data from FAO for maize, one of the most traded food commodities in Africa, shows that the large price differences between States members of the Community and within countries remain. For example, in January 2021, the price per kg of maize ranged from $0.58 in Burundi to $0.49 in South Sudan and $0.16 in Uganda; in South Sudan, the price per kg ranged from $0.17 in Yambio to $0.70 per kg in Juba. The lack of price convergence is associated with several non-tariff barriers to trade and oligopolistic market structures.

Regional productive capacities remain insufficient to increase self-sufficiency. Recent export growth in countries of the East African Community in the food processing sector, with the largest percentage change in exports of miscellaneous edible preparations, has mainly taken place at the intensive product margin, with little diversification. An examination of the trade balance of these countries with the rest of the world uncovers the concentration of exports in a few product groups and the low degree of complementarity of export supply and import demand. Product diversification through supposedly small jumps, due to similar production technologies within a sector, could increase self-reliance and food security. Higher output and export growth in the food processing sector is constrained, due to various obstacles to conducting business. As indicated in the World Bank enterprise surveys, the largest constraints are adequate access to electricity and high transport costs, which are more restrictive for trade in food products. Further evidence of the restrictive role of non-tariff trade barriers, and the constraints on enterprises aiming to build sufficient productive capacities, is set out below.

3.2.6 Potential for building a regional automotive value chain

The vehicles sector has the largest untapped export potential of all sectors under the current tariff conditions, driven by an expected increase in the continental demand for vehicles. In addition, the sector holds promise for transformative growth, given its high share of processed goods. However, labour force participation among women in the sector is low, which limits its potential to contribute to inclusive growth. Nevertheless, the automotive sector has received a lot of attention, due to a recent increase in investment on the African continent. In 2016–2019, based on greenfield project data, investment increased from $2.7 billion to $4.0 billion, with a drop to $1.1 billion in 2020. However, only a few countries currently have the potential to export in the automobile industry. Current production and exports are highly concentrated in Morocco and South Africa, which together accounted for 92.9 per cent of vehicles produced in 2019, followed by Algeria and Egypt, according to the International Organization of Motor Vehicle Manufacturers.[21] Production in other countries in Africa is emerging, but remains limited to small-scale operations, such as the Volkswagen plants in Kenya and Rwanda. Algeria, Ethiopia, Ghana and Nigeria also have ongoing production or production plans. For example, the membership of Ghana in the Economic Community of West African States and its central location in the West African market, in addition to the enabling institutional environment, were among the main reasons for investment by Volkswagen.[22]

According to UNCTAD (2019a), only 6 per cent of imports to the automotive sector are sourced from within Africa, which is also due to strong supply chains with developed countries through multinational companies, such as Volkswagen.[23] The main inputs are in the areas of electrical machinery, iron and steel, plastics and rubber. An assessment of the potential to build regional value chains by sourcing inputs from within the region suggests that the potential of supply in Africa is significantly lower than the export potential of non-African exporters. Therefore, in the short to medium term, an important share of imported inputs to vehicle production on the continent would still stem from other continents. Furthermore, the export potential of African producers of inputs to the vehicles industry are concentrated in a few countries, including Botswana, Côte d'Ivoire, Egypt, South Africa and Tunisia (International Trade Centre and UNCTAD, 2021).

[21] See https://www.oica.net/category/production-statistics/2019-statistics/.

[22] See https://www.fdiintelligence.com/article/78752.

[23] UNCTAD has identified challenges faced in connecting automotive value chains, namely, access to the regional market, including infrastructure and logistics, realizing economies of scale and fostering the emergence of competitive suppliers, skills development and value chain management (market linkages).

As current productive capacities seem to be insufficient to build a regional vehicles industry, strict rules of origin hinder access to inputs and productive capacities in the long term, especially for emerging markets, and may hamper the creation of value chains (UNCTAD, 2019a). Building regional value chains and attracting additional investment require robust cooperation and harmonized investment policies. For automotive value chains, issues such as the import of used cars, tax agreements and investment incentives may need to be addressed at the regional level. According to Madden (2020), 40 per cent of used car exports by Japan, the United States and the European Union go to Africa. Although used cars are often sold at a lower price than new cars, they may come with environmental costs. Flooding the market with old and polluting vehicles could be addressed by applying a maximum age and technical requirements on the imports of used goods. With regard to used car imports, as at July 2020, in Africa, 30 countries did not have a maximum age and 20 countries applied a maximum age of up to 20 years. Four countries, namely, Egypt, Seychelles, South Africa and the Sudan, protect their industries by banning used car imports (United Nations Environment Programme, 2020).

Despite a regulatory framework, the quality and implementation thereof are often insufficient to have an impact (Madden, 2020). Other industrial policies could include a reduced tariff rate for component imports and tariff-free import credits based on the extent of local value added investment, as done in South Africa (Black et al., 2017). The market dominance of South Africa may make it difficult for infant industries arising on the continent, but, with the significant growth in demand, more productive capacities should be built. A regional policy has been envisaged under the tripartite free trade area agreement between the Common Market for Eastern and Southern Africa, the East African Community and the Southern African Development Community. Other countries and regions, such as the East African Community, also jointly discourage the import of second-hand vehicles, imposing an eight-year age limit and a 25 per cent tariff on fully built new cars. Although it was intended to encourage local production, policy uncertainties, small internal markets and underdeveloped regional integration arrangements have resulted in limited investment and production (Black et al., 2017). Competitive manufacturing capability clearly remains a challenge in Africa; unit labour costs are high, due to weaknesses in skilled labour, the unreliability of utilities provision, especially of electricity, and limited access to inputs, services and capital goods. Sectoral policies to attract investment should include the development of skills and entrepreneurship, including for women, who are largely underrepresented in the sector.

Established leading automotive firms dominate the industry in Africa.[24] Despite their important role in building productive capacities through investment and knowledge spillover,[25] the market power that multinational companies have cannot be ignored. In order to attract investment into the sector, Ghana signed a memorandum of understanding with Nissan and Toyota, offering a 10-year tax break for fully manufactured cars in Ghana, a tax holiday for five years for semi-manufactured vehicles and agreeing to raise import taxes to 35 per cent, from 5–20 per cent.[26] The restriction is aimed at making sure that investment creates employment through backward linkages to the economy. On the one hand, such strong local provisions could provide incentives for international manufacturers to invest locally in skills development and create partnerships with universities to develop local knowledge.[27] On the other hand, it discourages the creation of regional value chains. International investment agreements concluded by countries in Africa and continental competition policies should ensure that in Africa, countries and investors benefit from more and better foreign direct investment, in particular sustainable foreign direct investment that makes a positive and lasting contribution to development in countries in Africa. Shared benefits from the export potential in the vehicles industry could be realized through tax distribution, global initiatives for a minimum tax and avoiding aggressive tax avoidance.[28] Due to such potential risks, an institutionalized dispute settlement mechanism under the African Continental Free Trade Area is important and should include investment and industrial policies and ensure tax justice.

3.3 Prosperity through liberalization in services trade

Services are key to promoting inclusive growth through various channels, such as the following: backward and forward linkages, such as retail services, financial services, information and communications technology and business services; reducing transaction

[24] See https://www.globenewswire.com/news-release/2020/03/03/1994714/0/en/The-automotive-industry-in-Sub-Saharan-African-countries-is-relatively-small-with-only-422-611-new-vehicles-sold-in-2018-The-market-is-highly-dominated-by-the-used-car-sales-which-.html.

[25] For example, the agreement between Nigeria and Volkswagen included the development of a programme to provide skills and technical training for academics.

[26] The import duties for new and used vehicles was raised from the 5–20 per cent range to 35 per cent, to encourage the purchase of locally assembled cars. Furthermore, a new law will prohibit the import to Ghana of cars that are more than 10 years old (see https://www.fdiintelligence.com/article/78752; https://www.industryweek.com/leadership/article/22028086/volkswagen-nissan-to-get-tax-breaks-for-plants-in-ghana; and https://www.bloomberg.com/news/articles/2019-08-15/volkswagen-nissan-to-get-10-year-tax-breaks-for-ghana-plants).

[27] See https://www.theafricareport.com/16546/ghana-needs-skills-upgrade-and-free-trade-to-make-automotive-tax-breaks-work/.

[28] See https://www.ft.com/content/847c5f77-f0af-4787-8c8e-070ac6a7c74f.

costs through information and communications technology liberalization; facilitating access to finance and financial instruments, including cross-border investments and facilitating the sending and receiving of remittances; and improving human well-being through health and education services. Trade in all services is positively correlated with GDP growth (UNCTAD, 2015a). Proportionally more small firms are active in services, especially in the health and social work sector, retail trade and activities auxiliary to insurance and pension funds. The tertiary sector is also characterized by a higher share of women-owned enterprises; for example, 17 per cent of enterprises in the tourism sector are owned by women, and 13 per cent in retail trade, compared with only 7 per cent in the manufacturing sector, according to World Bank enterprise surveys.

Although services liberalization, especially in producer services, such as finance, consulting, accounting and information and communications technology, has been envisaged and covered under RECs, legal enforcement lags behind. Barriers to trade in services are more difficult to quantify than tariffs on trade in goods, but research suggests that the barriers to trade and investment in services are often much higher than for goods (Hoekman, 2020; Jafari and Tarr, 2017). Estimated ad valorem tariff equivalents of barriers to trade in services amount to an average of 70 per cent across member States of the African Union (African Development Bank, 2019a). The lowest ad valorem equivalent of trade in services barriers is reported for mobile line communications services (3 per cent), retail trade (3 per cent) and banking services (15 per cent) and is highest for fixed line communications services (485 per cent), rail transport services (59 per cent) and legal services (47 per cent). The high tariff equivalent in fixed line services is attributed to the high entry barriers and the pure nature of a less tradable fixed service. In comparison with member countries of the Association of Southeast Asian Nations, for example, trade barriers to services average 52 per cent, ranging from 175 per cent in fixed line services to 1 per cent in mobile line services (African Development Bank, 2019a). Among four RECs in Africa, namely, the Common Market for Eastern and Southern Africa, the East African Community, the Economic Community of West African States and the Southern African Development Community, the Economic Community of West African States has the lowest restrictiveness index in financial services, retail and transportation services, and the East African Community has the lowest index in telecommunications. The Common Market for Eastern and Southern Africa is the most restrictive with regard to trade in services.

The high barriers to trade in services impede the productivity growth of firms. Policies that restrict foreign access to upstream services reduce the productivity of firms (Duggan et al., 2013; Hoekman, 2020). Liberalization in services is therefore expected to have positive impacts on productivity across enterprises.

Through trade liberalization under the African Continental Free Trade Area, services trade could gain 4 per cent overall and 14 per cent in intra-African trade by 2035, which is modest compared with gains in intra-African trade in manufacturing (110 per cent) and agriculture (49 per cent), according to a computable general equilibrium model estimated by the World Bank (2020a). Among services, the highest increases will be in the health and education services, transport services and business services sectors, on the assumption that 50 per cent of non-tariff barriers are actionable and can be reduced (World Bank, 2020a).[29] Estimates suggest that services contribute 30 per cent to the value added exports of goods (Simo, 2020).

Measures included in the WTO Agreement on Trade Facilitation are focused on lowering the costs of trading physical goods across borders, ensuring transparency in trade rules and simplifying compliance. To leverage the benefits of services liberalization for inclusive growth, it is crucial to ensure equal access to services.

3.3.1 Financial services liberalization for financial inclusion

Financial liberalization under the African Continental Free Trade Area has great potential to increase financial inclusion, but requires regulatory changes to reduce the risk of contagion and the transmission of financial instability (Economic Commission for Africa, 2020). Financial markets remain underdeveloped, which restricts the availability of credit for firms. Technology-enabled innovations in financial services have become a powerful vehicle for financial inclusion through the provision of basic services and longer-term financing to excluded populations, which is important for women-led start-ups in Africa, given that they only receive 2 per cent of funding, despite Africa having the most women entrepreneurs globally.[30] M-Pesa, introduced in Kenya in 2007, was a landmark project that enhanced financial services through the use of mobile telephones to supplement the banking infrastructure and, consequently, reduce transaction costs; there are now more than 500 financial technology companies providing such services across Africa (African Union and OECD, 2021).

[29] Reduction in non-tariff measures is modelled as ad valorem tariff equivalents. Liberalized market services include trade services, road and rail transport services, water transport services, air transport services, communications services, other financial services and insurance and real estate services. Non-tradable services education and health benefits come through income increases and are driven by demand and not tariff reductions (see https://www.worldbank.org/en/topic/trade/publication/the-african-continental-free-trade-area).

[30] Entrepreneurial activity rates among women in sub Saharan Africa range from 21.8–25.0 per cent, whereas the global average rate is only 10.2 per cent (African Union and OECD, 2021).

In the context of the COVID-19 pandemic, the use of financial technology is expected to further increase. In a report on the impact of the pandemic on the digital economy in Africa, the Economic Commission for Africa (2021) has illustrated how electronic commerce has been an important driver of pandemic recovery efforts. Electronic commerce platforms across the region can supply clients while they stay at home, which is a benefit not only during a pandemic, but also for enabling access to finance for women, who may often be the caretakers at home, and vulnerable groups with reduced mobility. The role of digital transformation in enhancing resilience and in pandemic recovery efforts is widely acknowledged. According to greenfield project announcements, investment in Africa in information and communications technology has increased, from $4.6 billion in 2019 to $9 billion in 2020. However, although Governments aim to support start-ups and entrepreneurs, governmental and licensing fees are high, and discounts on rents can be delayed. Financial liberalization and the close coordination of banking supervision could be a step towards a monetary union, as the highest form of regional integration, in the future.[31] Adopted in 2019, the Pan-African Payments and Settlement System is expected to support the implementation of the African Continental Free Trade Area by facilitating the convertibility of currency for multicurrency trade and formalizing some of the unrecorded informal trade.[32]

3.3.2 Digital services and digital inclusion

An estimated 29 million young people will reach the working age every year until 2030 (African Union and OECD, 2018), therefore, leveraging the digitalization and liberalization of access to digital services under the African Continental Free Trade Area to create jobs is vital. In the digital transformation strategy for Africa 2020–2030, the African Union envisages a digital transformation on the continent.

The mobile money revolution in East Africa suggests how digitalization could foster significant job creation through spillover effects on households and businesses. In Kenya, the number of active mobile money agents rose from 307 in March 2007 to over 290,000 in May 2021, and 185,000 women moved from subsistence agriculture to small business or retail occupations in 2008–2014 (Suri and Jack, 2016).[33]

[31] The free movement of labour, goods and services and capital should be a condition for a monetary union to function, not a goal (African Development Bank, 2019). To date, even the weaker requirements of free trade areas and customs unions have not been met.

[32] See https://www.afreximbank.com/the-governing-council-of-the-pan-african-payment-and-settlement-system-holds-inaugural-meeting/.

[33] See https://www.centralbank.go.ke/national-payments-system/mobile-payments/.

The challenges for harnessing digitalization for economic gains lie in energy shortages and inadequate infrastructure (UNCTAD, 2020c). In the medium term, the scope and contribution of digitalization under the African Continental Free Trade Area is limited, given that digital connectivity is still low. In 2019, only 17.8 per cent of households in Africa had Internet access, 28.2 per cent of the population used the Internet and 34 per cent of the population had active mobile broadband subscriptions (International Telecommunication Union, 2019). According to the UNCTAD business-to-consumer electronic commerce index, in 2018, Africa lagged behind the rest of the world in electronic commerce readiness. Small businesses in particular are constrained in adopting digital technologies by the lack of adequate infrastructure. Few businesses are adopting digital technologies, a small number of individuals have digital identities and few Governments are, as yet, investing sufficiently in developing digital infrastructure, services, skills and entrepreneurship.

Such challenges must be addressed as the implementation of the African Continental Free Trade Area proceeds; they merit serious attention on the part of policymakers, with a view to providing sufficient digital infrastructure, investing in digital skills acquisition and harmonizing legislation on technology, including intellectual property and data privacy.

3.4 Tackling trade frictions for inclusive growth

The dynamic and untapped trade potential through tariff liberalization was quantified above. The case studies suggest that realizing export potential does not automatically imply inclusive and transformative development. According to Melitz (2003), reducing trade and transaction costs across sectors increases the productivity levels of all enterprises and makes more firms competitive enough to step into foreign markets. A view through an enterprise lens on the harmful non-tariff barriers to reaping the benefits of inclusive participation in trade is set out below.

3.4.1 Non-tariff measures as the new frontier in trade policy

Non-tariff measures are differentiated into technical measures, including sanitary and phytosanitary measures, technical barriers to trade and pre-shipment inspections, non-technical measures and export-related measures, according to a classification system of the Multi-Agency Support Team established by UNCTAD. Sanitary and phytosanitary measures and technical barriers to trade have important objectives

related to health and environmental protection, which should apply equally to domestic producers. While such mandatory technical measures are not quantitative or price-based, non-technical measures comprise the instruments of trade policy that are specifically aimed at changing the quantities or prices of imported goods, such as contingent trade protective measures, price control measures, rules of origin and intellectual property rules. They are often termed non-tariff barriers,[34] due to their discriminatory and protective nature (Vanzetti et al., 2016). The number of non-tariff measures based on the latest data collection efforts conducted by UNCTAD, covering 22 countries in Africa is highest in the category of technical barriers to trade, followed by sanitary and phytosanitary measures and export-related measures. Such measures can cover up to 100 per cent of traded products (figure 21).

The sectors with the greatest coverage of sanitary and phytosanitary measures are live animals and animal products, with 94 per cent coverage for classification codes 1–5 under the Harmonized System, and vegetable products, with 89 per cent coverage for codes 6–14. Technical barriers to trade are most relevant for live animals and animal products (68 per cent coverage), vegetable products (78 per cent), food products (46 per cent, for codes 16–24) and textiles and clothing (44 per cent, for codes 50–63). Sanitary and phytosanitary measures and technical barriers to trade have the objective of ensuring food safety, in order to protect the health of humans, animals and plants. Such measures can be restrictive to trade, because of their technical complexity or procedural obstacles or if they are unjustified. They may have a protectionist purpose. Attempts to estimate a tariff equivalent of non-tariff measures give an idea of the associated restrictive market access. Across countries in Africa, the highest average ad valorem equivalent of technical measures is reported for fish products, with 73 per cent, followed by vegetable plaiting materials, with 38 per cent. Across all product groups and countries in Africa reporting, the average ad valorem equivalent amounts to 8.5 per cent of non-technical measures and 4.5 per cent of technical measures.[35]

Non-tariff measures are often considered the new frontier in trade policies, given that regional tariff liberalization may have contributed to the use of non-tariff measures (Crivelli and Groeschl, 2016; Orefice, 2017; Stender and Vogel, 2021). The political economy

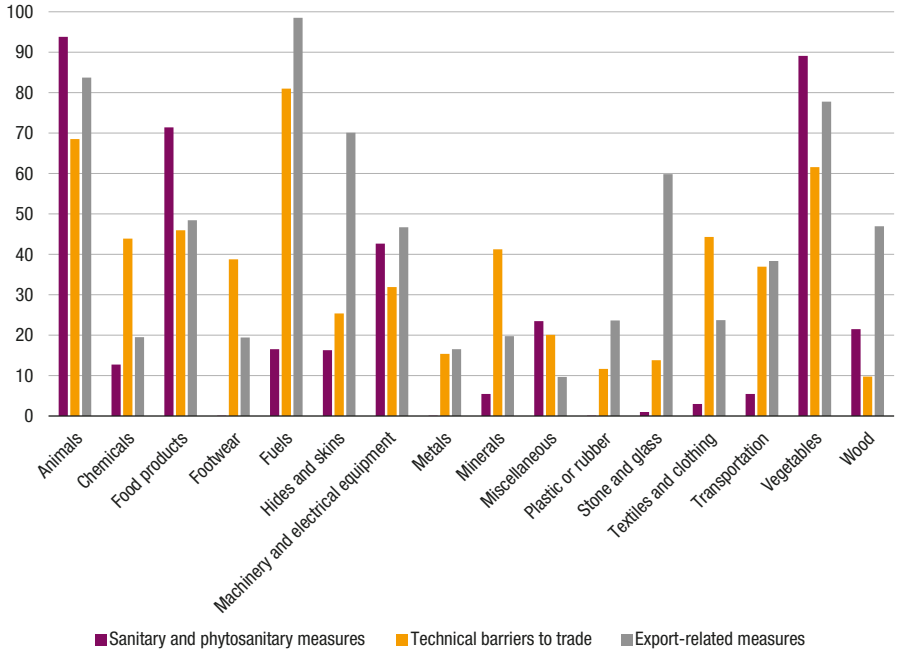
[34] There is no agreed WTO definition of non-tariff barriers, but it is understood to include all measures, other than tariffs, that discriminate or restrict market access. It is a broad term that includes all government imposed or sponsored actions that act as prohibitions or restrictions on trade, other than tariffs, in addition to all other measures that distort international trade without necessarily restricting it.

[35] Data on the ad valorem equivalents of non-tariff measures is obtained from the World Bank (see https://datacatalog.worldbank.org/dataset/ad-valorem-equivalent-non-tariff-measures) and the methodology is based on the estimation method developed in Kee and Nicita (2017). Countries with data availability on ad valorem equivalents include Benin, Ethiopia, Ghana, Mali, the Niger, Nigeria and Togo.

Figure 21

Average product coverage ratio of non-tariff measures in countries in Africa, by sector, 2015

(Percentage of product lines)



Source: UNCTAD calculations, based on data from the UNCTAD Trade Analysis and Information System.
Note: The countries considered were Algeria, Benin, Botswana, Burkina Faso, Cabo Verde, Cameroon, Côte d'Ivoire, Ethiopia, Ghana, Guinea, Liberia, Mali, Mauritania, Mauritius, Morocco, the Niger, Nigeria, Senegal, the Gambia, Togo, Tunisia and Zimbabwe. Product groups are based on the World Customs Organization sector classification for the Harmonized System product nomenclature (see https://wits.worldbank.org/tariff/non-tariff-measures/metadata/en/product/). The figure shows the product coverage of the three types of measures with the most regulations, as follows:

Technical measures	Sanitary and phytosanitary measures Technical barriers to trade Pre-shipment inspection
Non-technical measures	Contingent trade protective measures Quantity control measures Price control measures *Other measures:* finance measures, measures affecting competition, trade-related investment measures, distribution restrictions, restrictions on post-sales services, subsidies and other forms of support, government procurement restrictions, intellectual property, rules of origin
Export-related measures	Export-related measures

behind trade policies, where national objectives often contradict regional commitments (Apiko et al., 2020; Bünder, 2018; Byiers et al., 2018), is in fact the main challenge of successfully reducing the costs of non-tariff measures. However, the costs associated with non-tariff measures are especially harmful for small-scale traders and firms with limited resources, thereby causing inequalities in trade participation.

Reducing the potential negative effect of costly non-tariff measures on the exports of developing countries and the least developed countries can have a greater impact on trade flows than reducing remaining tariffs and on welfare increases for all countries from reducing non-tariff barriers (International Monetary Fund, 2020; Saygili et al., 2018; Vanzetti et al., 2016; Vanzetti et al., 2018).[36] In addition, while tariff elimination could reduce welfare, often due to potential tariff revenue losses, welfare gains through both consumption and output from less burdensome non-tariff measures would be positive for all countries in Africa. Reducing the burdensome costs of complying with non-tariff measures can therefore strongly contribute to more inclusive participation in the African Continental Free Trade Area. Moreover, empirical evidence clearly shows the ways in which restrictive non-tariff measures increase the relative costs of living among poor households in Africa, especially due to a higher share of foodstuffs in household expenditure (Cadot and Gourdon, 2014; Treichel et al., 2012; Vanzetti et al., 2016). A relatively higher burden of costs of non-tariff measures is not only carried by households, through higher prices, but also by small enterprises, through costs from technical requirements in production processes and administrative costs.

The results of surveys of non-tariff measures conducted by the International Trade Centre suggest that, among the types of burdensome regulations faced by exporters, conformity assessment is the most burdensome non-tariff measure for enterprises (42 per cent and 25 per cent of cases in Kenya and Uganda, respectively). Moreover, the results show that small firms face a relatively higher burden in complying with non-tariff measures, due to knowledge gaps and higher relative administrative costs. The empirical literature on non-tariff measures confirms the negative association with exports (Nicita and Murina, 2017; UNCTAD, 2016) and highlights that the effect of the regulatory burden is greater for small firms (Fugazza et al., 2017).

Although the restrictive effect of rules of origin is difficult to quantify, the results of business surveys conducted by the International Trade Centre indicate that compliance

[36] Estimated welfare gains of reductions in non-tariff measures amount to $20 billion and for tariff liberalization, to $1.5 billion, allowing for the exclusion of sensitive products (Vanzetti et al., 2018). A reduction of costs of non-tariff measures is modelled through a productivity shock, which results in positive welfare gains for all countries in Africa.

with rules of origin is the main obstacle. For instance, within the East African Community, conformity assessments and rules of origin are the non-tariff measures that are the most burdensome, according to the results of a survey conducted in Uganda (International Trade Centre, 2018). Stringent rules of origin can be especially burdensome for low-income countries with the remaining low capacity and the need to import inputs. Under bilateral rules of origin, value chain participants often have no option other than to source from higher-income countries with a comparative advantage (De Melo and Twum, 2020; UNCTAD, 2019a). Rules of origin must be flexible at the product level, without being too complex, to certify compliance (for an overview of applied rules of origin in RECs, see UNCTAD, 2019a).

Stringent, complex and costly non-tariff measures under the African Continental Free Trade Area can effectively make such measures barriers to trade (Tsowou and Davis, 2021). Evidence from the Southern African Development Community suggests that businesses have not used regional preferences for processed food and clothing, but have instead opted to pay full tariffs due to high rules of origin compliance costs (Gillson, 2010). To make non-tariff measures beneficial for sustainable development, the African Continental Free Trade Area is key to harmonization and transparency. A stronger regulatory framework for non-tariff measures could increase consumer confidence in African exports within the region and to the world (Cadot et al., 2018a). The efforts of UNCTAD to support countries in Africa in lowering the costs of compliance with non-tariff measures under the African Continental Free Trade Area are detailed in chapter 4.

3.4.2 Regional infrastructure gaps

It has been widely acknowledged in the literature that logistics infrastructure is vital to lowering transport costs and that it is an important element in poverty alleviation (Balistreri et al., 2018; Global Trade Review, 2021). To date, however, there remains a gap in the literature comparing intracontinental and extracontinental transport costs to guide investment in regions where it is most needed (Hoffmeister and Dalheimer, forthcoming).

The UNCTAD-World Bank data set on transport costs for international trade distinguishes between different modes of transport.[37] Policymakers may use the data set to guide decision-making on where investment in infrastructure might be most needed and

[37] See https://unctad.org/news/why-and-how-measure-international-transport-costs.

have the most inclusive results across countries. The transport costs, measured as the difference between the cost, freight and insurance and free-on-board values, relative to the reported free-on-board value is highest in extra-African trade, due mainly to the larger distance that must be overcome. On average, transport costs are as high as 15.5 per cent of intracontinental, and 18.7 per cent of extracontinental, free-on-board trade values. However, considering the distance between trading partners, intra-African transport costs, measured as the share of trade value per 10,000 km, are much higher than extraregional transport costs (figure 22). For road transport, estimates suggest that costs per 10,000 km comprise 29 per cent for intra-African traded goods, but only 7 per cent for goods traded outside Africa. Although there are scale effects at play when trading over larger distances, the high road transport costs within RECs of up to 99 per cent of trade value for countries within the Intergovernmental Authority on Development and 84 per cent within the East African Community emphasize the restrictive impact of poor infrastructure on intra-African trade. The differences in regional averages are driven mainly by large differences among countries in transport costs, where landlocked least developed countries in Africa face the highest transport costs, which undermines their competitiveness and potential to benefit from tariff liberalization. The particular constraints faced by landlocked economies in Africa are largely owing to the large gaps in road network density across African regions (African Development Bank, 2019a). Sea transport is the least expensive mode of transport across observed groups, except for countries in the Economic Community of Central African States and the Economic Community of West African States, where goods are mainly traded through road transport. Due to the poor rail network in Africa, this mode is rarely used for freight transport in the region, and has therefore been omitted from the analysis.

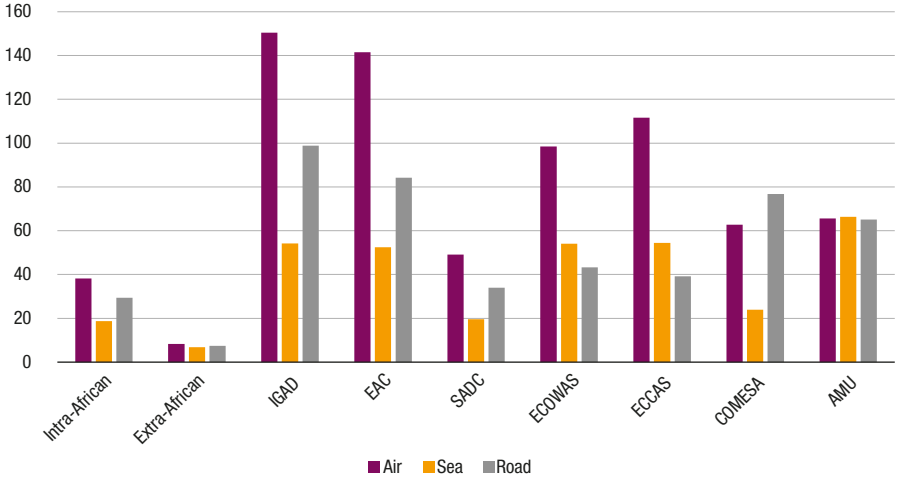
The African Continental Free Trade Area is expected to be a catalyst for boosting intra-African infrastructure projects. Historically, paved roads have evolved mainly in an interior-to-coast direction, in order to export natural resources, a pattern that can be explained by colonial and political structures. Countries in Africa need to take action to reverse this trend, establishing greater interior-to-interior links (Bonfatti and Poelhekke, 2020). The need for infrastructure investment is estimated at between $130 billion and $170 billion per year, based on estimates by the African Development Bank.[38] Interim solutions to facilitate trade can include cross-border special economic zones such as the Sikasso-Korhogo-Bobo Dioulasso Triangle between Mali, Côte d'Ivoire and Burkina Faso, the first cross-border special economic zone in West Africa.[39]

[38] See https://www.fdiintelligence.com/article/76336.
[39] See https://documents.worldbank.org/en/publication/documents-reports/documentdetail/452631564064496467/cote-d-ivoire-agricultural-sector-update.

Figure 22

Transport costs in Africa, by region and transport mode, 2016

(Percentage)



Source: UNCTAD calculations, based on data from the UNCTADstat database.
Note: Transport costs are measured as the share of trade value per 10,000 km.
Abbreviations: AMU, Arab Maghreb Union; COMESA, Common Market for Eastern and Southern Africa; EAC, East African Community; ECCAS, Economic Community of Central African States; ECOWAS, Economic Community of West African States; IGAD, Intergovernmental Authority on Development; SADC, Southern African Development Community.

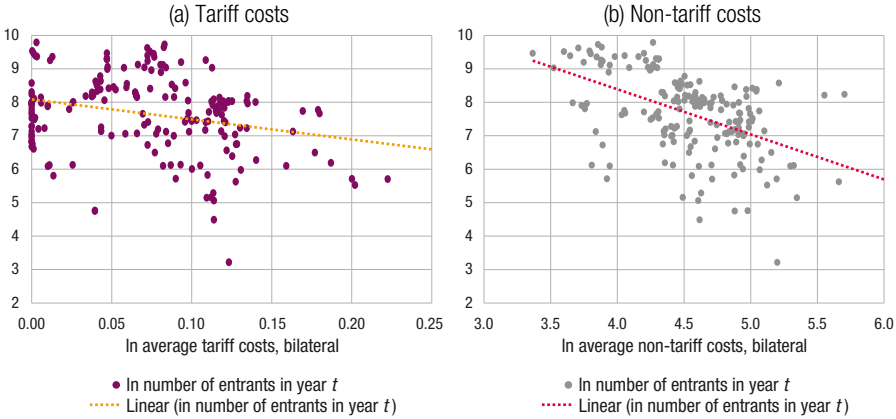
3.4.3 Market information and market linkages gap

The key instrument for boosting economic diversification and exploring new export opportunities is the facilitation of market entrance through increased transparency of trade rules (Disdier et al., 2019) and accessible market information, such as through the African Trade Observatory. The results of a survey of 1,804 microenterprises and small and medium-sized enterprises in Nigeria, conducted by the Brookings Institute, suggest that only 36 per cent of firms in the manufacturing sector and only 3 per cent of firms in the agricultural sector are aware of the African Continental Free Trade Area (Madden, 2021). With regard to inclusive growth, a reduction in trade and transaction costs reduces costs for all firms, making more firms productive enough to enter and survive in the domestic and export market (Melitz, 2003). Using data at the bilateral, six-digit level of the Harmonized System, for 1998 to 2013, on

the number of market entrants and surviving entrants, a simple correlation exercise suggests that there is a negative association between trade costs and market entrance, confirming the hypotheses that a reduction in trade costs facilitates market entrance (figure 23).

Figure 23

Export entrants among intra-African exporters, 1998–2013



Source: UNCTAD calculations, based on data from the trade cost database of the Economic and Social Commission for Asia and the Pacific and the World Bank and the exporter dynamics database of the World Bank.
Note: ln (a): adjusted R-squared 0.28; and in (b): adjusted R-squared 0.46. Trade costs are measured based on microtheory using macroeconomic data.

Market intelligence can play an important role in reducing the experimental costs of entering a new export market and supporting exporting firms in destination markets. According to customs data reported in the exporter dynamics database for the years 2010–2012, the average survival rate of African exporters in African markets in their first year was low, at 24 per cent. In the second year, only 10 per cent of new entrants survived in foreign markets. Market entrance was greatest among the leading export sectors, with a strong negative correlation with the export survival of enterprises in their first year. The strong correlation between entry rate and survival rates is confirmed in the literature (Cebeci et al., 2012). On the one hand, small and medium-sized enterprises have a low chance of survival because of business supply constraints and volatile production (Economic Commission for Africa, 2020). On the other hand, the low survival rates are also caused by potential mismatches of supply and demand across borders. Enterprises seem to be more attracted to markets that are

currently successful export markets, but may face limited opportunities due to dominant regional and global market actors.

The costs of export experimentation can be largely reduced through market knowledge platforms that connect buyers and suppliers, and industry associations or intermediaries. Intermediaries and contractual arrangements between buyers and sellers can play an important role by providing access to inputs, extension services and knowledge. Such market linkages are especially relevant in food supply chains (Dihel et al., 2018).

3.5 Tackling supply-side constraints for inclusive growth

The previous sections focused on tariff liberalization and the removal of other trade barriers, which should be addressed through the successful implementation of phase I of the African Continental Free Trade Area Agreement. Similar to the findings discussed in section 3.2, Jensen and Sandrey (2015) estimate an uneven distribution of trade gains under the African Continental Free Trade Area, whereby countries in Africa with strong productive capacities and greater competitiveness benefit the most. The main obstacle to increasing productivity across enterprises and countries is an unequal access to productive resources and institutional quality.

3.5.1 Access to intermediate inputs

The liberalization of tariffs on goods that domestic enterprises use as capital or intermediate inputs in production would reduce the price of production inputs and potentially increase productivity. High tariffs on intermediate and capital goods are an impediment to the creation of value chains in developing countries, including in Africa (Amiti and Konings, 2007; Bown et al., 2020; De Melo and Twum, 2020; Hsieh and Klenow, 2007; International Trade Centre, 2010; Slany, 2019; Tralac, 2018), to a firm's competitiveness (Antràs et al., 2017; Blaum et al., 2018; Halpern et al., 2015), to product diversification (Goldberg et al., 2010) and to a firm's investment rate (Amiti and Konings, 2007; Bernard et al., 2007; Meleshchuk and Timmer, 2020).

Similar to their restrictive impact on exports, non-tariff measures impede imports and may be harmful for a domestic firm's competitiveness (Navaretti et al., 2018; UNCTAD, 2016). Policymakers should streamline non-tariff measures into national competitiveness

agendas, given that they may cause inefficiencies if they are poorly regulated, as is the case in many countries in Africa with limited administrative capacity; and may raise prices, especially for agrifood products, increase import costs and disproportionately affect smaller producers (Cadot et al., 2018a; Cadot et al., 2018b). In Uganda, for example, in surveys conducted by the International Trade Centre on non-tariff measures, even more importers than exporters reported being affected by procedural obstacles. The main difficulties arise from conformity assessment requirements, import prohibitions or authorization requirements (International Trade Centre, 2018).

Tariff concessions made at the REC level may negatively disadvantage countries that rely heavily on food imports. More importantly, high common external tariff rates are likely to disadvantage small and fragile countries in Africa that depend much more on imports and do not yet have the productive capacities to replace them (box 8). The balance between commitments and flexibility in tariff policy affects how regional trade can benefit poverty and inequality reduction, and the effect depends on the economic structure and underlying institutions (Santos-Paulino et al., 2019).

Box 8

High tariffs on sensitive products restrict access to intermediates and consumer goods and are expected to affect the poorest the most

Although, as at the time of writing, the lists of sensitive products under the African Continental Free Trade Area have yet to be submitted by many member States and RECs, it is likely that similar products, such as rice and sugar, will remain protected. The common external tariff is unfavourable to low-income households and potentially driven by producer interest in economically strong markets, and lobby groups. For example, the East African Community sensitive product list under the common external tariff was intended to protect competitive but infant markets, to increase regional productive capacities. As at August 2021, the common external tariff is structured as follows: 0 per cent on raw materials, capital goods, agricultural inputs, certain medicines and medical equipment; 10 per cent on intermediate goods; 25 per cent on final goods; and 35–100 per cent on sensitive items covering 1.2 per cent of tariff lines. Using trade data from the World Bank world integrated trade solution database and partial equilibrium analysis, one study shows that, although trade within the East African Community of sensitive products, including cement, cigarettes and tobacco, rice, sugar and milk, increased, imports from outside the Community and the negative trade balance increased more, indicating that the demand exceeded regional supply (Shinyekwa et al., 2016). The high import tariff rate on sensitive products increases their price and has negative welfare implications for the

poorest members of the population. Specific findings on products suggest that, on hard wheat, a tariff rate of 0 should be applied, due to the lack of regional capacity to serve the demand; the tariff on raw sugar should also be reduced, given that it is an important product for food processing, and the common external tariff on cement should also be set to 0, to reduce the costs of infrastructure development.

The African Development Bank has noted that, for the East African Community and the Economic Community of West African States, the common external tariff raises the cost of living among poor households and that small, low-income countries would benefit from closer cooperation. For example, in the food sector in Kenya, household survey data, including households as producers and consumers, suggest that a fall in sugar prices by 20 per cent through the reduction of trade barriers and increasing competition leads to welfare gains for all income deciles; this is supported by the observation that the poor are mostly net consumers, instead of producers, which is why the net welfare effect of higher prices through import tariffs can depress real income. On the producer side, high tariffs on finished products can also reduce the competitiveness of manufacturers who use the products as inputs in industrial production. For example, clinker is imported with a common external tariff of 10 per cent from outside the East African Community, but the material is used to manufacture cement. The insufficient supply of and high tariffs on some sensitive products and inputs to productive capacities limit competitiveness. Ongoing tariff negotiations concerning sensitive products should follow a rational, empirically based framework to determine which commodities should be included or excluded from lists of tariff concessions.

Sources: African Development Bank, 2019a; Argent and Begazo, 2015; Bünder, 2018; Karingi et al., 2016; Shinyekwa et al., 2016.

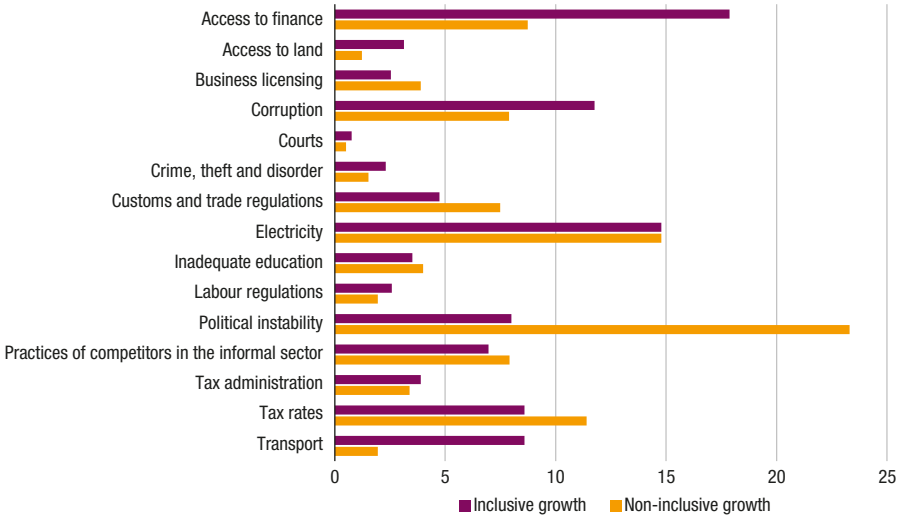
3.5.2 Access to productive resources

Across countries, the greatest obstacle to conducting business cited by exporters is access to finance (for 16.5 per cent of firms), followed by electricity (15.8 per cent) and political stability (10.5 per cent), based on data from the World Bank enterprise surveys. Figure 24 sets out the greatest obstacles to business, as reported by exporters, comparing inclusive and non-inclusive growth countries (see box 2 in chapter 1). Exporters in countries with inclusive growth identify poor access to finance, electricity constraints and corruption as the greatest obstacles. In contrast, exporters in countries without inclusive growth list political instability, electricity and tax rates as major hurdles. Khorana and Martínez-Zarzoso (2018) emphasize the positive association of institutional quality with trade performance and growth.

Figure 24

Obstacles faced by exporting African enterprises

(Percentage)



Source: UNCTAD calculations, based on data from the World Bank enterprise surveys (various years).
Note: The latest survey year available for individual countries was used, ranging from 2006 to 2020. Classification into inclusive and non-inclusive countries is based on the lists in tables 1 and 2 (see chapter 1). Countries in the group of absolute inclusive growth are not considered here for comparative purposes.

Major differences in the constraints on conducting business across enterprises by firm size are observed in the tax rates and the insufficient availability of an adequately educated workforce, which are considerably more constraining issues for large firms. The COVID-19 pandemic further exacerbated such inequalities across enterprises. In a round of the World Bank enterprise surveys on the pandemic response, conducted in April–August 2020 in 18 countries in Africa, a quarter of enterprises reported being closed, with a significant drop in sales among other enterprises. The largest drop in sales was reported by enterprises in the accommodation and food services (74 per cent), food preparations (63 per cent), transport and storage services (56 per cent) and personal services (54 per cent) sectors. The negative impact on sales was greatest for small firms, at 50 per cent, compared with large firms, at 39 per cent (Arezki et al., 2021).

Similarly, in a joint study by the Economic Commission for Africa and International Economics Consulting (2020), surveying 76 microenterprises, 59 small enterprises,

42 medium-sized enterprises and 33 large businesses in Africa in April 2020, small firms were found to have been disproportionately affected. While small firms had to reduce capacity utilization to 30–40 per cent on average, large firms were able to keep operating at 50–60 per cent of production. The main challenges reported by microenterprises and small and medium-sized enterprises related to the lack of revenue and income and surviving the pandemic. In contrast, large enterprises reported a reduction in opportunities to meet new customers and changing business strategies as the main challenges. Such observations are linked with the business constraints reported before the pandemic, with limited access to finance being a much greater concern for small firms than for large firms (Economic Commission for Africa and International Economics Consulting, 2020). During the pandemic, digital technologies providing services and access to market information have been increasingly used by firms, but only 22 per cent of enterprises in Africa started using digital platforms, compared with 32 per cent of firms in other low-income and middle-income countries (Arezki et al., 2021).

Various research (e.g. Beall and Piron, 2005; De Haan, 1999) shows that certain groups are systematically disadvantaged, including by gender, class and ethnicity, factors which overlap with various poverty dimensions, such as social capital, vulnerability and capability deprivation (Adera et al., 2014). With regard to gender inequality, the Ibrahim Index of African Governance indicates that, although improvements have been made in the area of gender balance in education and employment, the increasing trend of weakening legislation on combating violence against women is highly worrying. The observation that countries that have experienced inclusive growth score on average higher on gender policies emphasizes the important role of institutions in promoting inclusive growth. There is a need to collect comparable data on legal frameworks on combating discrimination and to discuss evidence of how laws that protect minorities from discrimination contribute to economic growth and economic activity among vulnerable groups (Panter et al., 2017).

3.6 Coherence in trade, investment and competition policies

Investment policies, competition policies and industrial policies should be closely linked to each other. While industrial policies tend to be aimed at strategic sectors supporting and protecting domestic market actors in their exports,[40] competition policies should

[40] Industrial policies are understood as proactive State support with a view to spurring productive capacities and development in significant sectors, especially those with strong backward and forward linkages.

be aligned in such a way that market actors do not abuse market power and restrict market entry once an industry has grown. Investment policies come into play when the rents from industrial policies, and the potentially increasing domestic concentration of export revenues, do not transform into local investment and the building of productive capacities. Complementary measures need to be adopted to support the least developed countries in Africa from experiencing worse conditions.

3.6.1 Investment policies

Cross-border private investment has significantly declined during the COVID-19 crisis. Foreign direct investment to Africa declined by 20 per cent in 2020, exacerbated by a decline in commodity prices. Announced cross-border greenfield projects are a good indicator of sectoral and bilateral private foreign investment, along with international project finance, mainly observed for large-scale infrastructure projects, including multiple investors. For the continent of Africa, the announced value of cross-border greenfield projects dropped by more than 60 per cent, from $77 billion in 2019 to $29 billion in 2020. While investment in the manufacturing sector dropped by 74 per cent, project value in the human health sector tripled in 2019–2020. Nevertheless, health services only account for less than 1 per cent of all greenfield projects (UNCTAD, 2020a; UNCTAD, 2021a). Investment in information and communications technology increased in 2019–2020, contributing 31 per cent to all announced projects in 2020, compared with only 6 per cent in 2019, which indicates the sharp shift of investment from manufacturing to services during the pandemic.

In 2016–2020, the largest share of investment in the manufacturing sector was realized in the manufacture of coke and refined petroleum products, with 10 and 8 per cent of total investment in 2019 and 2020, respectively, due to the resource dependency of most countries in Africa. As shown in table 9, investments announced in 2019 by African investors were concentrated in chemicals and chemical products (30 per cent), coke and refined petroleum products (12 per cent) and information and communications technology (15 per cent). The concentration of investment in a few sectors is in contrast to the ideas of increasing productive investment and investment diversification, and it leaves economies more exposed to systemic risks (UNCTAD, 2020b). The manufacturing of food and beverages accounted for only 0.28 per cent of foreign direct investment projects announced by African investors in 2018 and 2.33 per cent in 2019. Along with a high level of concentration of economic activity among a few firms in these sectors, proportionally greater investment in the sectors is expected to increase the productivity of a handful of companies, with few benefits for inclusive growth.

Table 9

Announced greenfield foreign direct investment projects by sector and industry, 2016–2020

(Percentage)

Industry	Africa as destination					Africa as investor				
	2016	2017	2018	2019	2020	2016	2017	2018	2019	2020
Manufacturing	*19.57*	*24.32*	*42.87*	*42.88*	*29.20*	*53.33*	*52.33*	*33.42*	*57.84*	*13.50*
Food, beverages and tobacco	0.88	2.18	6.04	3.18	4.76	1.54	2.32	0.28	2.33	1.59
Chemicals and chemical products	5.04	7.71	14.47	8.03	3.53	41.97	20.36	13.80	30.78	0.32
Coke and refined petroleum products	5.18	1.70	8.41	10.03	7.98	0.00	0.16	0.00	11.72	0.00
Pharmaceuticals and medicinal chemical products	0.42	0.35	0.30	0.72	0.33	1.55	2.01	0.73	0.60	1.30
Motor vehicles and other transport equipment	2.89	1.65	3.32	5.21	3.83	0.77	0.78	0.48	0.00	1.14
Primary	*4.23*	*12.36*	*22.09*	*3.67*	*4.76*	*0.00*	*0.00*	*0.48*	*0.94*	*0.00*
Agriculture, forestry and fishing	0.13	0.13	0.32	0.25	0.98	0.00	0.00	0.45	0.00	0.00
Mining and quarrying	4.11	12.24	21.77	3.43	3.78	0.00	0.00	0.03	0.94	0.00
Services	*76.20*	*63.32*	*35.04*	*53.45*	*66.04*	*46.67*	*47.67*	*66.11*	*41.22*	*86.50*
Construction	16.77	6.34	6.20	12.43	1.42	19.54	3.44	15.68	0.71	1.86
Education	0.11	0.04	0.07	0.34	0.49	0.70	0.06	0.07	0.25	1.12
Electricity, gas and steam	15.97	43.00	7.41	13.27	18.32	0.23	0.45	7.47	8.43	12.50
Financial and insurance activities	0.77	0.88	0.98	2.73	2.37	5.39	13.52	10.04	8.26	6.33
Human health and social work activities	0.02	0.00	0.01	0.05	0.58	0.00	0.00	0.00	0.00	0.00
Information and communications technology	2.19	2.56	5.09	6.02	30.90	8.15	12.49	14.82	15.07	57.42
Transportation and storage	15.09	7.13	6.75	7.01	4.41	7.28	9.76	5.52	1.76	1.71
Total (millions of dollars)	93 841	86 516	77 104	77 061	28 997	10 935	5 507	8 885	12 056	6 131

Source: UNCTAD calculations, based on data from the Financial Times (see https://www.fdimarkets.com/).

Inclusive foreign direct investment requires the active engagement of Governments of countries in Africa, in particular the least developed countries, to attract investment into the poorest nations and into the sectors with significant benefits for inclusive development. The challenge for policymakers is to identify the sectors in which investment is most needed and most beneficial. It requires a deep understanding of market potential and

the characteristics of industries. Countries should conduct individual assessments of opportunities for investment for inclusive growth, with the assistance of development partners. Investment agreements, both bilaterally and regionally, play a crucial role in regulating provisions and the obligations of investors to ensure sustainable investment. However, by 2020, only 141 of the 733 bilateral investment treaties, excluding other investment agreements, signed by countries in Africa were intra-African investment agreements.[41] For example, the Reciprocal Investment Promotion and Protection Agreement between Morocco and Nigeria has been acknowledged as one of the most innovative and inclusive bilateral investment treaties, given that it includes a provision that investment must contribute to sustainable development while ensuring the protection of the investment at the same time (article 24 (1)). Investors need to uphold human rights in accordance with labour-related and environmental standards and comply with the Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy of the International Labour Organization, as well as internationally accepted standards of corporate governance (Gazzini, 2017). Such agreements can serve as a role model to guide negotiations on the African Continental Free Trade Area investment protocol.

3.6.2 Role of the African Continental Free Trade Area investment protocol

Attracting foreign direct investment that contributes to sustainable development and inclusive growth is a central objective of the African Continental Free Trade Area investment protocol. Given that countries in Africa are at different stages of development, discussions on the investment protocol may prove complex. Member countries began negotiations in March 2021, with UNCTAD providing technical support and facilitating expert discussions on the key provisions of the protocol. The protocol will cover all aspects of international investment policymaking, namely, investment facilitation, promotion and protection. The protocol is also expected to include innovative provisions on investor obligations and on the right of host countries in Africa to regulate in the public interest. To ensure that benefits from investment and innovation are realized, intellectual property rights should also be agreed upon (Songwe, 2020).

Within RECs, regional investment agreements have emerged, however, the overlapping membership of member States in RECs makes the harmonization of investment inefficient and complex. Examples of regional investment agreements and instruments include the following: Investment Agreement for the Common Market for Eastern and Southern Africa

[41] See the international investment agreements navigator at https://unctad.org/topic/investment/international-investment-agreements.

Common Investment Area (not yet in force); Supplementary Act to the Revised Treaty of the Economic Community of West African States, Adopting Community Rules on Investment and the Modalities for Their Implementation with the Economic Community (in force); and Southern African Development Community Protocol on Finance and Investment (in force). Also of note are the East African Community Model Investment Code and the Southern African Development Community Model Bilateral Investment Treaty Template. In 2016, the African Union Pan-African Investment Code was adopted as a non-binding model investment treaty, preserving national interests. The Code, which refers to the UNCTAD investment policy framework in its preamble, is a new generation model that includes many of the reform-oriented features promoted by UNCTAD and included in its newly launched international investment agreements reform accelerator.[42] The Code also includes provisions on due diligence and obligations for investors in relation to human rights, corporate social responsibility, the use of natural resources and land grabbing.

UNCTAD has reviewed investment laws and policies and investment promotion agency programmes from around the world, finding that less than 50 per cent of States Members of the United Nations have investment policy measures that promote target investment in sectors relevant to the realization of the Sustainable Development Goals, such as infrastructure, water, sanitation and health. In *World Investment Report 2020*, UNCTAD outlined some policy instruments to promote investment in such sectors. Such instruments include conditioning investment on investor performance and environmental and social impact; and special economic zones to attract investment relevant to the realization of the Sustainable Development Goals. For example, Rwanda allows for a preferential tax rate on investments in solar, geothermal, hydro, biomass, methane and wind energy projects, and South Africa provides cash grant incentives for critical infrastructure investments (UNCTAD, 2020b). With regard to international investment agreements to promote and protect inclusive foreign investment, agreements should not only state the realization of the Goals as a core objective, but also opt for minimum tax rates to avoid a race to the bottom in attracting investment through favourable tax provisions for large companies. The importance of multilateral cooperation in increasing tax revenues, mobilizing domestic resources and tackling illicit financial flows was emphasized in *Economic Development in Africa Report 2020*. Some of the challenges relate to compliance with laws and the administrative capacity to collect taxes (UNCTAD, 2020e). Moreover, in joint ventures, the State acts as an investor itself, and communities may have limited rights to act against large foreign investors. A dispute resolution mechanism that is accessible by communities and private companies is the way forward.

[42] See https://unctad.org/webflyer/international-investment-agreements-reform-accelerator.

3.6.3 Competition policies

The damages to developing countries caused by anticompetitive practices have implications for the purchasing power of consumers through increased prices (UNCTAD, 2008). Imperfect competition in African markets tends to lower welfare gains from tariff elimination and the reduction of non-tariff barriers (International Monetary Fund, 2020; Saygili et al., 2018). Moreover, due to scale effects, some larger economies, such as Nigeria and South Africa, gain more from non-tariff barrier reduction under imperfect competition, which further increases inequalities. The export potential assessment suggests that large economies benefit the most, due to supply-side economies of scale, which are relevant in some capital intensive sectors, such as the automotive industry.

Competition policies can help ensure that limited competition due to monopolistic or oligopolistic market structures does not reduce welfare; such policies are not aimed at simply increasing the number of firms or eliminating market power to achieve perfect competition, but rather generating incentives for firms to improve their economic performance and to benefit consumer welfare. Tackling barriers to increased participation and creating inclusive markets is a key element of ensuring dynamic and inclusive growth in the long term (Banda et al., 2015).[43] Anticompetitive behaviour in transport and distribution networks, for example, is often identified as a reason behind intranational transport costs being higher than international transport costs in many countries (Kunaka, 2011; World Bank and OECD, 2017).

The importance of a regional competition policy is also seen in the example of the cement industry, where nine regional firms produce more than 50 per cent of cement, and dominant market actors have cartelized an entire region (International Monetary Fund, 2019; UNCTAD, 2019a). The concentration in certain industries heavily depends on the endowment of natural resources. Similar trends are seen in the fertilizer supply chain (World Bank, 2016).

While tariff liberalization increases competition through greater market access, the effect on firm-level investments and building productive capacities is ambiguous. It is often argued that greater competition can stimulate firms to invest in product and process upgrading, but that may not work for most firms in Africa, which

[43] The research paper on the study on the link between barriers to entry and inclusive growth is part of a research programme by the Centre for Competition, Regulation and Economic Development at the University of Johannesburg, with the intention of formulating policy recommendations to facilitate greater levels of entry and competition in various sectors in South Africa to drive inclusive growth (Banda et al., 2015).

have identified access to finance as the main constraint to conducting business. Therefore, the role of competition in fostering innovation, investment and job creation remains disputed. On the one hand, the efficient allocation of resources incentivizes innovation and productivity among firms, which can translate in the long term into the creation of productive jobs. On the other hand, when market distortions hinder the levels of investment, innovation and productivity, greater competition may not be able to increase productivity. In such cases, increased competition from foreign entrants can reduce output and employment in the domestic industry, leading to greater concentration in domestic markets, since only a few enterprises are productive enough to survive. Such effects of cross-border competition call for a continental approach to reducing anticompetitive behaviour among dominant firms (Gachuiri, 2020; Saygili et al., 2018).

One of the diverse channels through which competition affects productivity and export growth is the role of innovation and technological progress. In assessing the impact of increasing competition on exports, the Herfindahl-Hirschman index can be used as a measure of competitiveness across sectors, whereby a higher index value indicates a lower level of competition (Babuscu et al., 2019).[44] There is a non-linear relationship between greater competition and export growth, indicating that, in highly competitive sectors, exports increase with increasing competition, whereas in less competitive sectors, exports are positively associated with higher market concentration (Babuscu et al., 2019). In already competitive markets, firms are forced to be efficient in order to survive in the market. With increasing levels of market entry, enterprises must retain high levels of efficiency and strong business management. As a result, higher productivity levels allow more firms to enter foreign markets and export. In contrast, exports in sectors with high concentration rates are driven by economies of scale, and increased competition would reduce economies of scale advantages for each enterprise, which would cause a decline in exports. A differentiation by sectors suggests that, in the food sector, increasing competition generates an export promoting effect even at higher concentration levels (Babuscu et al., 2019). The non-linear relationship implies the need for differentiated competition policies. For capital-intensive industries, such as the vehicles and the machinery sectors, the goal of competition policies might not be to increase competition in the sector or prevent all kinds of mergers. Rather, due to higher costs of investment and technology requirements, a greater concentration of economic activity can be beneficial for export creation.

[44] Data are obtained from the exporter dynamics database and include 31 developing countries. The database derives the Herfindahl-Hirschman index from the export value per firm.

The role of competition policies and investment policies should be defined according to the impact of dominating firms on employment and any tendency for anticompetitive behaviour or abuse of market power. In labour-intensive sectors, with lower sunk costs of market entry, structural and regulatory barriers to entry should be reduced to support inclusive market participation. Moreover, competition policy to reduce market power and lower prices are most effective in sectors that provide a significant share to the consumption basket of poor households, such as food products and beverages, which account for 40 per cent of the consumption basket of the lowest income decile (World Bank and OECD, 2017). Under the constraint of available public administrative resources, competition policies could be focused on the sectors that would potentially bring the most benefits to consumers and reduce poverty. Moreover, given that competition is strongly linked to market liberalization and sectoral industrial policies, competition policies should not be discussed in isolation from tariff liberalization. Any policies directing firm behaviour should include an assessment of local backward and forward linkages, as suggested in the case studies in section 3.2.

Through the UNCTAD Research Partnership Platform, a study was conducted on the harmful impact of 249 cartels across 20 developing countries in 1996–2013, in terms of prices and consumer welfare losses. The results show the substantial negative effects of cartels on GDP and the production levels of affected sectors, and on welfare through higher prices. Gachuiri (2020) discusses how competition authorities in Africa increasingly face cases that have a regional, cross-border dimension, and the African Continental Free Trade Area is likely to further allow domestic cartels to spread anticompetitive behaviour across borders (see Economic Commission for Africa et al., 2019).

3.6.4 Role of the African Continental Free Trade Area competition protocol

The COVID-19 pandemic has affected small businesses and small-scale traders more negatively than larger firms. Due to bankruptcies, small firms may be forced to exit the market, which will increase the concentration of economic activity among fewer market actors. It is crucial that Governments in Africa act together to protect small and medium-sized enterprises from anticompetitive behaviour and maintain competition (Gachuiri, 2020). In this regard, UNCTAD has urged competition authorities to closely monitor market developments and protect competition, by allowing cooperation arrangements, when necessary, to supply affordable products, and enforcing competition laws against companies that abuse market power.[45]

[45] See https://unctad.org/news/defending-competition-markets-during-covid-19.

In 2021, 25 countries in Africa had competition laws in place with functional competition authorities; eight countries had enacted the law, four had reached advanced stages of competition legislation and 18 did not have competition laws or were in the early stages of developing legislation. National competition policies operate on a territorial basis (Economic Commission for Africa et al., 2017). The continental approach under the African Continental Free Trade Area competition protocol has the potential to address anticompetitive practices from both domestic and foreign firms affecting domestic markets in Africa (Gachuiri, 2020). As shown in table 10, at the REC level and below, competition regulatory frameworks exist within the Central African Economic and Monetary Community, the Common Market for Eastern and Southern Africa, the East African Community, the Economic Community of West African States and the Southern African Customs Union, as well as, to some extent, in the Economic Community of Central African States, with a high degree of heterogeneity and harmonization among national frameworks (Dawar and Lipimile, 2020) (table 10).

Table 10

Regional competition policy frameworks

Regional economic commission	Competition law or institution	Enforcement	Legal framework
Central African Economic and Monetary Community	Competition provisions and competition and consumer protection law developed	Enforced in 1999 Amended in 2019 to create a regional authority	Decisions by regional authority legally binding on partner countries when anticompetitive practices impact trade among partner countries Gender balance in composition of executive board of regional authority
Common Market for Eastern and Southern Africa	Competition Commission	Enforced in 2012 Case law on cross-border mergers	Common Market for Eastern and Southern Africa court handles dispute resolution
East African Community	Competition Authority	Enforced in 2018 Ad hoc discussions since 2015 No formal merger applications	Decisions by Competition Authority legally binding on partner countries Lack of enforcement of national competition laws (only Kenya and the United Republic of Tanzania have national competition authorities)
Economic Community of West African States	Regional Competition Authority	Enforced in 2018	
Southern African Development Community	No regional competition authority Treaty of Southern African Development Community prescribed cooperation network, the Competition Committee		
West African Economic and Monetary Union	Competition provisions include State aid that affects competition in the common market	Enforced in 2002	Decisions by regional authority legally binding on partner countries

Source: UNCTAD, based on Gachuiri, 2020.

Despite the legal arrangements, there remains a lack of regulatory bodies and financial and human resources to effectively address anticompetitive behaviour. UNCTAD remains an active partner of countries and RECs in Africa in developing competition regimes and enforcing competition policies, through analytical work and capacity-building activities within an intergovernmental framework. The African Continental Free Trade Area has the mandate to harmonize existing operations among all RECs and can draw lessons from, for example, the experience of the Common Market for Eastern and Southern Africa Competition Commission, which provides the most advanced legal framework for addressing cross-border mergers and cartels. The UNCTAD Research Partnership Platform can serve as a starting point for the African Continental Free Trade Area secretariat to draw on existing experiences (Gachuiri, 2020).

A continent-wide competition authority, established within the purview of the African Continental Free Trade Area secretariat, is envisaged as a way to effectively address cross-border anticompetitive practices. It would allow for the extension of the positive experiences gained by RECs on the continent, including countries that belong to a REC that does not have enforceable competition provisions, such as the Arab Maghreb Union, the Community of Sahelo-Saharan States and the Intergovernmental Authority on Development. The objectives of the competition protocol should include poverty eradication, access to markets for small and medium-sized enterprises and consumer protection (Gachuiri, 2020).

Case-dependent competition polices require substantive resources, but can be a driver of employment. In Kenya, the Competition Act is aimed at considering the impact that a merger has on employment, the participation of small and medium-sized enterprises in markets and international competitiveness (World Bank and OECD, 2017). For example, in a merger of the Real Insurance Company and the British-American Investments Company, the competition authorities in Kenya had concerns with regard to employment, owing to duplicative positions. Therefore, the authorities negotiated employment conditions to facilitate competitiveness and the creation of jobs. Gachuiri (2020) notes that sectors prone to anticompetitive behaviour, such as fertilizers, telecommunications, air transport, energy, retail and road freight, could be reviewed in a preparatory phase on the implementation of the competition protocol.

The civil law systems in countries in Africa are based on colonial history, which adds to the challenges of having a continental competition protocol (Gachuiri, 2020). Although national competition laws cover areas of anticompetitive agreements, such as cartels, mergers and abuse of dominance, existing national policies vary in the application of public interest in merger analysis. To date, although 50 per cent of trade agreements

have included obligations to prohibit abuses of market power, most trade agreements exclude the competition clause from dispute settlement, which calls into question the effectiveness of such clauses. Given the interconnection between trade, investment and competition policies, it is crucial to build a dispute settlement mechanism to ensure coherence between protocols.

3.7 Concluding remarks

Given the opportunities for strengthening regional trade and making trade more complementary identified in this chapter, countries in Africa can tap into currently unexplored trade opportunities by addressing market frictions. The current untapped export potential amounts to $8.6 billion and the dynamic potential from supply and demand increases was calculated to be $13.3 billion by 2025. Through partial tariff liberalization under the African Continental Free Trade Area over the next five years, an additional $9.2 billion of export potential could be realized. To unlock the untapped potential, various intra-African non-tariff barriers, including non-tariff measures, infrastructure gaps and market information gaps, need to be successfully addressed, which requires joint efforts under the African Continental Free Trade Area. Regulatory and structural barriers to market entrance are significant obstacles to realizing greater opportunities of export diversification across countries and enterprises.

Enterprises experience business constraints differently, and access to inputs and productive resources are not equally distributed. Such market distortions in terms of equal access are the main challenge to inclusive growth. Services liberalization plays a strategic role in reducing trade, transaction and production costs. The African Continental Free Trade Area can provide solutions to the various constraints to distributing gains equally, but requires long-term cooperation in investment and competition policy and strong political commitment. Aspects of implementation are discussed in chapter 4.